

Draft Executive Summary **2012/2013 Budget**

The Actual budget processes started during October 2011. Numerous IDP meetings, Ward and Ward committee meetings, "Council meets the People" and other meetings were conducted where residents re-emphasized their needs that must be taken into consideration during the prioritization of the budget over the MTEF period.

The budget were prepared in conjunction with the MFMA circulars and other regulations

A. IDP and linkage of IDP to budget (Capital Budget)

Council will adopted the Revised IDP during March 2012 and it will be again be adopted by Council during the Budget meeting. Communities re-affirmed their needs which forms part of the revised IDP document. However all needs cannot be achieved, realized or addressed in one financial year or over one MTEF period. **The current linkage of the IDP to the budget amount to R24 084 723.**

The total R24 084 723 are broken down as follows:

- 1. Municipal Infrastructure Grant (MIG)**

-The establishment of Cemetery in Britstown.	R 763 000
-Storm Water Drainage	R10 178 000
-De Aar Upgrade Sewerage works	R 5 200 000
- 2. Own Capital Funding**
 - 2.1 Resealing and construction of new streets allocation of R3 584 000 has been budgeted for the 2012/2013 financial year.**
 - 2.2. Amount of R1 000 000 for the Financial Reforms in order to fully comply with GRAP Accounting Standards which is being prescribed by the MFMA. In order to fully comply with the MFMA, GRAP Accounting standards other legislative requirements, extensive programmes are under way to achieve Clean Audit Status by 2014.**
 - 2.3. An amount of R553 789 for Other Office equipment and smaller capital assets will be procured.**
 - 2.4. Budgeted Capital expenditure for Machinery and Equipment amount to R181 663**
 - 2.5. Budgeted Computer Equipment amounts to R 551 327**
 - 2.6. Renovations and Refurbishing of Land and Buildings amount to R902 944**
 - 2.7. Traffic capital expenditure amounts to R370 000**
 - 2.8. Acquisition of Prepaid Electricity of R800 000**

3. Allocations in Kind are being allocated to Emthanjeni Municipality but will be administer by other government departments

-Regional Bulk water	R15 000 000
-INEP (Eskom Grant)	R 72 000

B. OPERATING BUDGET

1. Budgeted Income

1.1. Total expected Net Rates Income will be R17 597 091

-Total expected budgeted rates income comprises of the following:

- Accruals amounts to R33 206 871
- Impermissible Levies as per MPRA amounts t R14 512 110
- Income forgone on Rates income R1 097 670

-Property rates penalties imposed arrear accounts amounts to R101 124.

-Rates will be levied on the market value of properties as per our municipal valuation roll.

-During the 2012/2013 financial year, a new General Valuation Roll will be produced and will be implemented on the 01 July 2013.

-Agriculture properties will be levied according the ratio of 1:0,25 as per MPRA and will received further rebates as per Rates policy.

1.2 Other Levied Services budgeted income are almost R79 982 313

1.2.1 -Electricity amount to R43 767 449

1.2.2 -Water amounts R16 902 240

1.2.3 -Sewerage amounts to R11 991 380

1.2.4 -Refuse removal amounts to R7 182 164

1.2.5 -Other service charges amounts to R139 080

1.3 Fines will be budgeted for at gross amounts of R7 025 473

1.4 Licenses and permits will be R1 160 319

1.5 Rental of facilities and equipment expected income will be R499 305

1.6 Interest Income will be R1 475 230

1.6.1 External Investments amounts to R734 104

1.6.2 Interest charged on Arrear accounts amounts to R741 126

1.7 Equitable Share and other Operating Grants and Subsidies amount to R38 311 000

1.8 The Total Operating Budgeted Income for the 2012/2013 Financial year are R163 862 508

1.9 The Total Budgeted Income amounts to R180 003 508. The total budgeted income consists out of

1.9.1	Capital Grants and Donations	-	R16 141 000
1.9.2	Operating Grants and Subsidies	-	R38 311 000
1.9.3	Own generation of budgeted income	-	R125 551 508.

NB: Grants of Allocations in kind of R15 072 000 which include the Regional Bulk Water is not included in the total budgeted income.

**There is an increase in total budgeted income of 11.3% in relation to the previous year.
The main reasons for the increase are:**

- (i) The increase in grants and subsidies over the past years
- (ii) The general increment of service tariffs and levies
- (iii) The increase in electricity sales.

2. Expenditure

2.1 Salary and wages

- The total salary and wages and social contributions for the year amounts R52 953 419
- Annual increase of 7,5 % has been agreed at SALGBC
- Provision has been made for number of learnership positions for the 2012/2013 financial year.
- The salary percentage to the total capital and operating budget is +- 29 %

2.2 Councillor Remuneration

- Councillor Remuneration amounts for R3 548 594
- Councillor remuneration has been provided on the current Public Officers Bearers Act, date December 2011.
- the councillor remuneration percentage to the total capital and operating budget is +- 2.0%

The total salaries and wages, social contributions and councillor remuneration is between 30% - 32% in relation to the total capital and operating budget.

- 2.3 Provision for Bad Debts, working capital reserve and depreciation increase from R7 500 709 in 2011/2012 to R8 217 0880 for the 2012/2013 budget year.**
- 2.4 Repair and maintenance increase by almost R1 778 319 nominally from R9 238 776 during 2011/2012 to R11 017 095 for 2012/2013 financial year.**
- 2.5 Contracted Services costs are budgeted for R6 562 634**
- 2.6 Capital Charges for interest on loans amounts to R1 121 217**
- 2.7 Bulk Purchases for Water and Electricity amounts to R38 142 000. This increase represents mainly the Eskom's tariff increment of 25,8 per annum.**
- 2.8 Operating Grants and subsidy expenditure amounts to R12 804 739, which are mostly spent on the Indigent Households for the subsidized services provide to approved Indigent Households.**
- 2.9 Capital Grants payments amounts to R16 141000. These amounts are mainly recognized on the income side and also on the expenditure side.**
- 2.10 Capital projects that are finance from own funds amounts to R7 943 723. These are the ward projects, etc.**
- 2.11 Other expenditure amounts to R20 719 177 includes some of activities that will take place amongst others:**
- | | |
|---|-------------|
| -Employee Wellness | R1 161 600. |
| -Audit Fees | R2 034 534 |
| -Telephone | R 992 192 |
| -Departmental Accounts (Water, Electricity, Street lighting, etc) | R3 123 983 |

-Fuel and Oil	R2 640 002
-General Valuation Costs	R1 300 000
-Insurance	R 969 329
-Subsistence and Travel	R1 759 884
-SALGA Membership	R 435 000
-Electrical Rural Pump Costs for Water provision	R1 145 000

The Budgeted Expenditure for 2012/2013 are R190 938 591 which comprise of Operating Budget of R166 853 868 and the Capital budget of R24 084 723. This represents an increase of 13.3 % in relation to the previous year's Capital total budget. A total increase of 11.6% is expected in the Operating Budget in relation the last year budget.

C. Tariff Increments

Tariffs expected increases for the 2012/2013 financial year are set out below. These are

1. Rates and taxes

- Residential properties increased by 6%
- Business Properties increased by 7%
- State Owned Properties increased by 7.5%
- Agriculture properties will be levied according (residential properties) in the ratio 1:0,25

2. Electricity

- Basic fee will increase by 6%
- 1-50 kWh increase by 5.5%
- 51-350 kWh increase by 12%
- 351 and more kWh units increase by 14%

3. Water

- Basic fee will increase by 6%.
- Water consumption will be increase by 6% in all blocks
- Water will be levied from the first kilolitre consumed.

4. Sewerage and sanitation

- Tariffs increased by 6%

5. Refuse removal

- Tariffs increased by 6%

6. All other secondary tariffs.

- Tariffs increased by 7%

D. Indigent households

A total of almost 3000 indigent households are expected to receive subsidized services every month. The subsidizes services include

1.	50 kWh of electricity		R36, 69
2.	Water		R80, 36
	➤ Basic fee	R55.87	
	➤ Consumption: 6000 liters (6kl) of water	<u>R24.49</u>	
3.	Monthly sewerage		R135, 38
4.	Monthly refuse removal		R84, 41
Total monthly subsidized services to Indigent Households			R336, 84

Please note: Free Basic services amounts include Value added Tax(VAT)

All Indigent Households must re-apply for the subsidy from now to end of September 2012 in order to update our records and registers annually.

E. KEY BUDGET ISSUES

The MFMA and MFMA Circulars 13, 28, 51, 58 and 59 ***states it clearly that Municipal Budgets must be realistic.***

1. INCOME

Income are being categorised under the following main sources:

1.1 RATES AND TAXES

Rates and taxes account for

- between 10% and 12% of the total operating revenue in relation to the 2012/2013 Budget.
- Conservative increment of 6.0% could be considered due to the inflation rate during January 2012 is currently at 6.1% and will still increase due high prices currently experienced.
- A separate levy category for business properties and guest houses will be implemented on the 01 July 2012.
- A separate levy category for state-owned properties will be implemented on the 01 July 2012.
- Agriculture properties will be levied as per MRPA ratio of 1:0,25. The phasing period is over except for the DMA area which still enjoy the phasing-in discount.
- Another factor that needs to be taken into consideration is the General Valuations of which the implementation date will be on the 01 July 2013 and the valuation date will be on the 01 July 2012.

1.2. ELECTRICITY

- Electricity is the biggest source of revenue for Municipality.
- Surplusses from the sale of electricity are being absorbed by the non income generated services.
- With eskom's annual tariff increment , the impact on electricity Consumption have to be taken into consideration.
- Any new developments that will contribute to a increase in demand of electricity.
- An total average increment of between 5 and 14% for the various block tariffs have been applied by Nersa.

1.3 WATER

- Historical data on consumption formed the trend when expected revenue was calculated.
- All consumers of water will be levied from the first killitre of water consumed.
- Provision needs to be made for new water connections i.e. households, new developments.
- Weather patterns influence the consumption water immensely.

1.4 SEWERAGES AND REFUSE

- -Historical data will be adjusted accordingly to determine the revenue for the fixed cost services.
- -New Developments, building of new houses will increase the revenue source.

1.5 FINES

- Traffic fines are expected to increase over the next few years due to the collection efforts initiated by Council.

1.6 OPERATING GRANTS AND SUBSIDIES

- -Almost 21 – 22 % of total operating income represent grants and subsidies received from National and Provincial Government.
- -A lot can be said about the allocations that we received but no amount of money will be ever enough for the challenges experienced by the Municipality.

1.7 CAPITAL GRANTS AND SUBSIDIES

- Mainly the capital infrastructural projects are being financed from grants received.
- These projects that are being executed are limited from the income sourcing provided by MIG allocations to Budget.
- Challenges are experienced with the proper alignment of sectoral departments budget to our Municipal Budget.

1.8 OTHER INCOME

- Other income represent also a substantial amount of the total operating income due to the fact that Prepaid Electricity is part of this revenue .
- The appointment of Service Providers for the Debt Collection and Revenue Enhancement will hopefully improve the revenue streams and cash position of Emthanjeni Municipality.

2. EXPENDITURE

2.1 EMPLOYEE COSTS

- -This category includes salaries and wages, aswell as social employee contributions.
- This can almost be seen as “fixed costs” as salaries need be paid every month.
- This represents will be the biggest expenditure category of the budget.

2.2 COUNCILLOR REMUNERATION

- As determined by the upper limits Gazette promulgated by Minister of COGTA

2.3 REPAIR AND MAINTENANCE

- This is the category that needs to be adequately provided for.
- Assets are old, and almost at the end of their usefull lives.

- New developments that are construction needs also to be maintained.
- A huge challenge that our Municipality experiencing is with new constructions, very little monies are received for the Repair and Maintenance of these new constructed infrastructure developments.
- Roads, Buildings, Equipment and Vehicle fleet need desperate attention.

2.4. BULK PURCHASES

2.4.1 ELECTRICITY

- -NERSA's approval of ESKOM's annual electricity tariff impacts heavily on the current resources and payment levels.
- -Historical Data in terms of the purchasing of electricity will determine the provision of bulk purchases that takes the annual increases in consideration..
- Eskom tariff is influencing our annual electricity tariff to the core or bone.

2.4.2 WATER PURCHASES

- Mainly weather conditions during summer season will determine that demand of water that needs to be mine (ground bore hole water). Due to the current wet season, the consumption levels of water is being affected.
- Interest rates links need to be considered especially with the Reserve Bank's policy on Macro Economic Strategy..

2.6. PROVISION FOR BAD DEBTS

- Social Economic Conditions within the Municipality needs to be taken into consideration.
- -Indigent Households needs to be determined and Indigent Household Register needs to be update bi-yearly or annually
- Payment ratio or the collection of income cannot be emphasized enough.
- Promised development that takes slow to kick-off impacts negatively on the payment percentages and payment levels of debtors.

2.7. DEPRECIATION

- The Net Depreciation amount is an result of the current depreciation less backlog depreciation due the increase in the values of all assets that increase from R200 million to R1000 million at 30 June 2009. The municipality needs to provide for this expense in terms of the approved Assets Policy where method of depreciation is outline, where applicable.

2.8. GENERAL COSTS

- -Fiscal discipline needs to be adhered to by all.
- -Fuel increases starts again to increase due to the United States of America instituted oil sanctions on Iran. The North African and Middle East Conflict/Crisis and instability contributes to uncertain oil prices. Oil prices affects the end consumer very negatively.
- -Telephone Charges □ better internal control Mechand needs to enforced.

- -Limitation or strict control over the increment of other line items as this relegendary is a huge challenge for us.
- -General price increases will also contribute to linkes in general costs.
- -Subsistence and Travel must only be undertaken when enough funds are available on the budget.

2.9. CAPITAL PROJECTS

- Capital Projects that are finance from own source remains a challenge due to availability of funds, lack of proper planning, lack of proper costing to the projects.
- Too dependent on National and Provincial Government on funding for the execution of IDP projects.
- No real commitment from sector departments to align the Capital to our Capital programme.

F. ASSUMPTIONS

- National Treasury direction or guidelines on budget increases that must be in line with the macro economic strategy of between 3-6%
- Inflation is just outside the Reserve Bank parameters of 6% and current figures are at 6.1% in January 2012.
- Eskom tariff electrical approval from NERSA of 16% . The weighted average increment will be 13,2 % as from 01 July 2012 which , will not only have a direct impact on the sale and procurement of electricity but to price hikes in general.
- Salary increments has not yet been finalised this year for the new three year cycle. No indications exist that increase can be below or over 6% as Organised Labour and SALGA are only starting the process of wage negotiations. An 7.5% increase has been budgeted for salaries.
- Apart from the normal salary increments, Medical Aid Employers contributions increments will be between 10 and 12 %.. This places a heavier financial burden on the revenue sources and impacts on the tariif calculation as a whole.
- General increases in purchasing or Cost price of normal items increase on average between 10-15 % as in relation to the same period last year.
- Repair and Maintenance Costs together with labour costs of `repairing municipal assets also fall victim of the huge price hikes which needs to be taken into consideration.
- Various developments such as the Solar Energy Plants, Hospital R300m project , Shopping Mall, Smaller Franchises and the building of projects will impact on the current capacity of the infrastructure of the municipality which affects the preparation of the budget. These projects will hopefully realised during the financial year.

G. FORECASTING OF REVENUE AND EXPENDITURE

1. REVENUE

1.1. RATES AND TAXES

- Tariifs will increase by ± 6.0 %

1.2. ELECTRICITY

- Electricity Tariffs will increase on a total average of 12% for a consumption of 600khw and 14% for a consumption of 800khw as from 01 July 2012.

1.3. WATER

- Water will increase by 6.0 %.
- All Economic active households will be levied from the first kilolitre of water.
- Only Indigent Households will be getting the first 6000 liters of water free as it is included their Free Basic Services Basket.

1.4. SEWERAGE AND REFUSE REMOVAL

- Both Tariffs wil increase by 6.0 %.

1.5. SECONDARY TARIFFS

- Secondary Tariffs will increase by ± 7 % for the 2012/2013 financial year.

The total budgeted average increment for all revenue sources will be ± 6 %.

2. EXPENDITURE

2.1 EMPLOYEE COSTS: SALARIES AND WAGES

- Salaries and wages has been provided at an increment of 7.5%

2.2 EMPLOYEE COSTS: SOCIAL CONTRIBUTIONS

- A provision of an average increment of 7.5 % will provided

2.3 REPAIR AND MAINTENANCE

- A provision of an average increment of 7 % will be provided. However Repair and Maintenance expenditure increased by almost 16% in relation to last year. This shows Council's commitment to the maintenance of all assets.

2.4 BULK PURCHASES

- Electricity purchases will increase on a weighted average of between 5 and 14 % from 01 July 2012 and water will increase on average of 7 %.

2.5 CAPITAL CHARGES

- An average increment of 10 % will be provided since expectations are in line with the cost of capital of about 10%

2.6 GENERAL COSTS

- A provision of an average increment of 7 % will be provided.

2.7 PROVISION FOR BAD DEBTS

- A provision of an average increment of 9 % has been provided on all budgeted levied revenue.

3. GRAPHS

Attached the Budget information

- A1 Budget Schedule
- Chart on Total Income via GFS functions
- Chart on Total Expenditure via GFS functions
- Chart on the Tariffs and deficit

H. BUDGET ANALYSIS

- The overall increases during the 2011/2012 and 2012/2013 financial years reflect an annual increment of $\pm 13\%$ and in 2012/2013 budget year on average increment of between 6. – 8 % will be expected.
- The total tariff increment will be 6% which is in line with the expectations of National Treasury except the electricity tariff.
- Electricity tariffs increments are as per NERSA's guidelines.
- The general $\pm 6\%$ tariff increment is also in line with the current economic data available.
- The budget is realistic and external or macro economic factors as well as micro economic factors were taken into consideration. However, the municipality has no control over these macro conditions that impact very heavily on the operations of the municipality.

These are interest rates, fuel prices, inflation rates, high food prices, unemployment rate, and also statutory levies imposed by National and Provincial Governments, etc.

- The budget is very income generated driven and also focus on building and maintaining infrastructure development within the Emthanjeni Municipality.
- All budgeted income will realised by the extensive efforts that will be enforced by the officialdom.
- Strict expenditure mechanisms will be enforced to ensure that the key Strategic Objectives of the municipality are executed.
- Budget is in line with the policies of council especially directed to the poorest of the poor with the provision of Free Basic Services to all qualified Indigent Households.
- Local Economic Development opportunities has been identified in order to provide sustainable LED projects for the communities.
- The budget is also biased towards the Indigent Households within the municipality.

I. BUDGET RELATED POLICIES

Council will adopt the following policies that were tabled to Council on 30 March 2012 with the Draft Budget. The policies are

- (i) Revised IDP
- (ii) Revised Credit Control Policy
- (iii) Revised Indigent Policy
- (iv) Tariff Policy
- (v) Investment and Cash Management policy
- (vi) Service Delivery and Budget Implementation Plan (SDBIP)
- (vii) Revised Supply Chain Management Policy

J. CONCLUSION

The 2012/2013 budget is a infrastructure developmental budget which will aim to create jobs by investing in infrastructure assets. The budget is also income driven. Emthanjeni Municipality are committed towards sustainability and improvement of service delivery for all it residents. The various initiatives that Council will be undertaken will sement and concrete their mandate to improve the lives of all residents by focussing on the poor and create conducive environment for local economic development.